

## Message Text

SECRET

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12

ACTION NEA-12

INFO OCT-01 ADP-00 PM-07 NSC-10 SS-15 RSC-01 SSO-00 NSCE-00

INRE-00 CIAE-00 INR-10 NSAE-00 AID-20 IGA-02 L-03

MC-02 RSR-01 /084 W

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O 131010Z JUL 73

FM AMEMBASSY KUWAIT

TO SECDEF WASHDC

CNO WASHDC

INFO SECSTATE WASHDC NIACT IMMEDIATE 7123

USCINCEUR

S E C R E T KUWAIT 2486

SECDEF FOR DSAA/HOENIG SENDS

E.O. 11652: GDS

TAGS: MASS KU

SUBJ: FMS KUWAIT - F-8H LEASE/PURCHASE PLAN

REF: A) KUWAIT 2477/DTG 111252Z JUL 73

B) KUWAIT 2474/DTG 111155Z JUL 73

1. DOD TEAM RECOGNIZES NEGATIVE CASH FLOW PROBLEM GENERATED BY PROPOSAL PARA 4 REF A. HOWEVER, THE LEASE/PURCHASE OPTION DERIVED FROM COMBINING LINE ITEMS ONE AND TWO OF CASE KU-LAB AND FROM PRESENTATION OF LINE ITEMS THREE THROUGH THIRTEEN AS SUPPORT PACKAGE IS WHAT WE BELIEVE TO BE THE ONLY VIABLE APPROACH FROM CUSTOMER POINT OF VIEW.

2. TO OVERCOME NEGATIVE CASH FLOW SUGGEST FOLLOWING APPROACH:

A. OFFER SUPPORT PACKAGE (SAB 3-13) AS DEPENDABLE UNDERTAKING OVER TWO YEAR PERIOD, ESTIMATED VALUE INCLUDING ASSEMENTS \$22.7M. BULK OF THIS, ABOUT \$20M, PAID IN FIRST YEAR WOULD APPEAR TO COVER CASH FLOW REQUIRED FOR SPARE ENGINES, GSE/SSE, SPARES AND REPAIR PARTS, ETC.

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B. OFFER FOUR YEAR LEASE/PURCHASE OPTION WITH MINIMUM OF TWO YEARS FOR REMAINDER OF PACKAGE (\$43.8M) AT \$210K PER ACFT/YR, FOR 32 ACFT, \$6.72M PER YEAR. HAVE FIRST TWO YEARS LEASE PRICE (\$13.44M) OR FIRST EIGHTEEN MONTHS LEASE PRICE (\$10.08M) PAID AT PROGRAM START. REMAINDER OF LEASE PRICE PAID QUARTERLY, STARTING WITH THIRD YEAR OR TWENTY-FIRST MONTH.

3. IF WASHINGTON BELIEVES IT IMPORTANT TO BLOCK ENTRY OF FRENCH AIR SUPERIORITY FIGHTER, WE BELIEVE WE MUST PROVIDE MINDEF SAAD WITH RATIONALE FOR INITIAL PRESENTATION OF F-8H AS INTERIM SOLUTION TO KUWAIT DEFENSE REQUIREMENTS. AS F-8H WITH ECM PACKAGE (KU-LAB VALUE \$5.6M) IS ONLY ACFT ENDORSED BY BOTH TECHNICAL AND OPERATIONAL STAFFS OF KAF; IT RETAINS EDGE OVER ALL COMPETITION IF STUMBLING BLOCK OF OUTRIGHT PURCHASE OF USED (EVEN IF ZERO-TIME) EQUIPMENT CAN BE OVERCOME.

4. OUR RATIONALE IN PUSHING THE F-8H AS A LIGHTNING REPLACEMENT FOR THE AIR SUPERIORITY ROLE INITIALLY, IS TO BLOCK CONSIDERATION OF MIRAGE F-1 ON THE BASIS OF F-8H EARLY AVAILABILITY, LOW LEASE COST, PROVEN OPERATIONAL CAPABILITY, LOGISTICS SUPPORT, ETC. THE GROUND ATTACK CANDIDATE FOR HUNTER REPLACEMENT WOULD FOLLOW AS A US BUY IN THE FORM OF F-5E, A-4 OR A-7, THUS MAKING A CLEAN SWEEP OF BOTH REQUIREMENTS.

5. SINCE THE GOK EMPHASIS FOR US PURCHASE NOW APPEARS TO BE SHIFTING TO AN ATTACK-TYPE ACFT IT STILL LEAVES THE ROLE OF AIR SUPERIORITY WIDE OPEN, WITH THE F-1 A VIABLE CANDIDATE FOR THIS APPLICATION. THEREFORE IT BEHOOVES THE US TO MAKE A MOST ATTRACTIVE PROPOSITION EARLY IN THE ACFT PROCUREMENT CYCLE.

6. WE HAVE NO DEFINITE ASSURANCE THE GOK WILL ACCEPT THE LEASE/ PURCHASE ARRANGEMENT; HOWEVER, OUR ASSESSMENT INDICATES THAT THIS APPEARS TO BE THE ONLY POSITIVE APPROACH IN VIEW OF LATEST DEVELOPMENTS. WE DO NOT NEED A COMPLETE ANALYSIS OF COSTS, TIMING, ETC AT THIS TIME, MERELY AN INDICATION OF THE ACCEPTABILITY OF OUR SUGGESTED PROPOSAL.  
STOLTZFUS

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